

# Issue Paper

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## Ensuring Successful Personnel Management in the Department of Homeland Security

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### SUMMARY

*Notwithstanding the debate in recent months between the Bush administration and members of Congress about how personnel should be managed in the Department of Homeland Security (DHS), the secretary of the new department will be faced with the challenge of implementing and further improving the human resources (HR) system agreed upon by the President and Congress. This challenge will be made more complex by the need to integrate federal employees who previously worked in other federal organizations and the need to reshape the skill mix of these employees to suit the new mission being given to the DHS. It will also be made more complex by the need to recruit a large number of new workers to replace the wave of retirements projected to occur over the next decade and that cannot be handled by outsourcing positions.*

*To provide input to help meet the challenge, this paper draws from management and economics studies to identify the characteristics that make the HR system in any organization effective. It presents evidence on where the civil service system falls short in terms of these characteristics, how these shortcomings have affected personnel outcomes in the past, and past efforts to improve the civil service system. It concludes with suggestions for steps that could be taken by policymakers to bolster personnel management in the DHS.*

*Successful personnel management requires flexible compensation and personnel management tools that provide performance incentives for both workers and managers, recruitment and retention incentives for talented personnel, managerial discretion and accountability, the assurance of adequate resources to implement these policies, transparency and oversight, stability, and limited financial risk to workers. The civil service system*

*contains some, but not all, of these characteristics. One of the main ways the civil service system deviates from the ideal system is that its processes can be excessively cumbersome and rigid. Furthermore, federal managers do not extensively use available tools, such as bonuses, that promote flexibility in the management of personnel. However, available evidence also suggests that existing civil service flexibility-related tools, if used, can be highly effective. In particular, retention allowances, buy-outs, and early retirement incentives can induce federal workers to change their retention, separation, and retirement decisions.*

*Measured in terms of such outcomes as the recruitment, retention, promotion, and pay of high-quality personnel, the civil service system has had a degree of success. However, the fact that some outcomes are better among higher-quality employees does not mean that enough higher-quality employees are being recruited and retained. Until recently, most federal civil service organizations lacked workforce plans, and thus had no explicit requirement for high-quality workers. Consequently, there has been no benchmark by which to determine whether the supply of such workers meets the requirement.*

*In response to concerns about shortcomings in the civil service system, some organizations, such as the Central Intelligence Agency, have obtained a waiver from the civil service rules and developed their own HR systems. To the extent that the new DHS secretary might pursue such a waiver, evidence concerning the success of past efforts by other organizations is important. However, little evidence is available on the relative success of these alternative systems, and the little that exists is inconclusive. Some evidence suggests that pay levels, retention rates, and staffing processes differ in organizations using alternative systems relative to those that have not waived*

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current rules; other evidence suggests little difference in the personnel outcomes.

*The military is an example of a federal organization that has been able to develop a successful HR system. Like the DHS, the military is a large governmental organization that employs individuals with diverse skills in multiple locations and that seeks to accomplish diverse objectives. The military has one-size-fits-all pay tables, yet virtually all observers would agree that the military's compensation system has proven over time to be remarkably successful in attracting and retaining high-quality personnel. Considerable flexibility is provided through the wide variety of special and incentive pays embedded in the military's compensation system. The military system also incorporates predictability and performance incentives. This is not to suggest that the civil service should adopt the military system or that the military system is perfect but rather that the military system provides a useful case study of how to develop an effective system.*

*Policymakers can take steps to bolster personnel management in the DHS. One way to improve the HR system is to ensure that the new organization makes greater use of existing policies that provide personnel management flexibility. For these policies to have their maximum effect, the barriers to their use—such as inadequate funding and overly cumbersome administrative procedures—must be addressed. And although it is essential, expanded use of the flexibility-related policies alone is unlikely to lead to a system that has all the characteristics that define success, especially given the stresses looming on the horizon. These policies will not address possible problems such as either excessive or insufficient oversight, hiring inadequacies, and poorly conceived management and employee performance incentives.*

*Ultimately, what is needed is a well-defined plan that includes all of the characteristics for successful personnel management. If it is decided that an entirely new HR system must be developed, the plan would specify the details. If the current civil service system is mostly retained, the plan should specify how to address those areas in which the system falls short.*

*However, the development of such a plan is no small task and will involve considerable effort. The DHS secretary should seek input from experts who are familiar with the federal civil service system but who are not closely tied to that system currently, and who are familiar both with the characteristics of an effective HR system and with how those characteristics apply in the context of a governmental organization. Finally, policymakers must be prepared to invest in monitoring and analytical activities to ensure that the system is meeting all of its objectives and to aggressively address any shortcomings that are identified.*

Now that Congress and the administration are moving ahead with the DHS, the new secretary must focus on building and improving the department's HR system. Lessons from the current civil service system must be

articulated and incorporated in the design of any new system especially since the vast majority of the roughly 170,000 employees of the new department will be civil servants transferred from existing agencies throughout the federal government. These agencies include the Federal Bureau of Investigation, the Immigration and Naturalization Service, and the Department of Transportation. To ensure that the department's HR system is effective, the secretary will need to identify the characteristics required to most effectively meet DHS missions, to understand where the current federal civil service system has fallen short in terms of these characteristics, and to lay out the steps required in the near and long term.

This paper provides some of this information. It first draws from the management and economics literature to identify the characteristics that any HR system needs to be effective in supporting organizational goals. It then discusses the available evidence on the performance of the civil service system, including whether it embodies these characteristics, its effect on personnel outcomes, and the success of past efforts to strengthen it. The paper discusses future trends that will challenge the ability of the DHS to attract and retain personnel. Finally, the paper suggests steps that might be taken in the near and long term to bolster personnel management in the DHS.

## **SUCCESSFUL PERSONNEL MANAGEMENT REQUIRES SIX CHARACTERISTICS**

Achieving an effective HR system in any organization presents complex problems that go beyond the single issue of flexibility in personnel management, which has been a focal point of the recent debate. Other characteristics in the HR system are also important.

Among these characteristics is whether the authorities, resources, and incentives are in place to help managers achieve their organization's goals. Although management experts and economists do not have an explicit list of criteria that make a system successful, the factors that are usually identified in studies of organizational management can be grouped into a list of six characteristics or criteria (Milgrom and Roberts, 1992; Tirole, 2000).

1. *The HR system offers flexible personnel and compensation tools or policies that efficiently promote the organization's missions.* Compensation and personnel policies provide incentives to attract, retain, motivate, and eventually separate personnel. These policies are sufficiently flexible to allow managers to respond to different markets and to adapt quickly to changing circumstances. The more uncertain or variable the environment, the more flexibility that is required.

2. *Managers have discretion over how the personnel and compensation tools are used.* Managers are able to set pay, to hire, to assign, to retain, to reward, and to separate personnel, and to allocate resources. A general principle in the management literature is that authority to make decisions is given to the managers and workers who have the information and incentives to act on that authority.
3. *Managers have the incentive to use the personnel and compensation policies in a way that supports the organization's mission.* Unused tools or tools that are used incorrectly or ineffectually are not beneficial. Compensation and personnel policies for managers must provide incentives for the effective employment of the HR tools. These incentives must be linked to a system that monitors managers' performance and holds them accountable for measured outcomes.
4. *Resources are available to implement and monitor those policies.* Unfunded tools—for example, authority to pay bonuses without funding—are not beneficial either. Resources must also be devoted to gathering data and analyzing the outcomes that result from these policies on an ongoing basis. Such data and analysis inform policymaking and promote transparency.
5. *Policies are transparent and appropriately linked to the organization's goals, and their implementation is subject to both internal and external oversight.* The policies are transparent to prevent the incidence and costs of opportunistic behavior and fraud among managers. Fraud and nepotism are more likely to occur when managers have more discretion. Therefore, HR systems that are more flexible and provide more managerial discretion also have an additional amount of oversight.
6. *Policies are stable and limit the financial and career risks that workers face.* Workers who are exposed to greater uncertainty and unpredictability in their pay and opportunity relative to other employment options receive higher overall compensation, on average, to compensate for that risk. Otherwise, worker morale and recruiting/retention will be diminished.

Each of these characteristics deserves attention when developing or evaluating the merits of an HR system. Although organizations may give more weight to some characteristics than to others, it is clear from management studies that systems with only a few of these characteristics but not others will not be fully effective.

## INSIGHTS FROM RESEARCH REGARDING THE CIVIL SERVICE SYSTEM

The civil service system contains most, but not all, of the elements understood to be part of an effective HR system.

It classifies jobs, sets compensation, and establishes procedures for hiring, promotion, firing, and retirement. However, some HR elements—for example, resourcing and personnel outcome monitoring—are defined by how agencies implement the system. Understanding the characteristics of the civil service system and its current implementation can provide the DHS secretary with a starting point for identifying where future changes for the DHS might be useful.

As implemented, the civil service system emphasizes the fifth and sixth characteristics: It is transparent, subject to extensive oversight, and its policies regarding compensation and staffing are highly stable and seem fairly applied. It also has the first characteristic, to the extent that the system includes tools that promote flexibility in personnel management. However, the available evidence suggests that it lacks the second, third, and fourth characteristics. Managers often lack the resources that would let them take advantage of the HR tools built into the system, and they seem to have relatively little discretion over setting pay or hiring and firing decisions. The evidence also suggests that managers rarely use the flexibility-related tools that are available to them.

### Some Aspects of the Civil Service System Are Rigid and Cumbersome

Civil service compensation, classification, promotion, and staffing policies in the federal civil service are well defined in Title 5 of the *U.S. Code*. The published pay tables and the detailed processes for defining jobs promote clarity, openness, and predictability. However, such rules can also produce a rigid system that embeds overly bureaucratic processes.

Statistics and anecdotal evidence show that civil service recruiting and firing processes have, indeed, become cumbersome at best and dysfunctional at worst, and that the civil service pay system is rigid and unresponsive to performance differences and external market conditions. Problems with pay, advancement, and training during the 1980s were discussed in the 1990 Volcker Commission report (Volcker, 1990). More recently, the U.S. Office of Personnel Management (OPM), the organization that oversees federal workforce policy, reported that more than 75 percent of the increase in annual federal pay bears no relationship to individual achievement or competence (James, 2002). A 2001 survey conducted by the Brookings Institution found that most federal employees called the hiring process slow and confusing, one-quarter called it unfair, and more than two-thirds said the federal government was not good at disciplining bad performance (Light, 2001). Stories abound of the long delays, often lasting months, in recruiting new personnel and the inability of personnel managers to fire poor performers. The Director



of OPM has called the General Schedule (GS) pay system an antiquated one-size-fits-all system that overly compresses pay as a result of an emphasis on internal pay equity rather than competitiveness (James, 2002).

### **Some Flexibility-Related Tools Are Not Widely Used**

The available evidence also suggests that civil service managers rarely use the many tools available to them through the system to flexibly manage their workforces to meet strategic personnel goals. OPM lists numerous different authorities and policies available to personnel managers to flexibly manage their workforces (U.S. Office of Personnel Management, 2001a). The policies include various staffing options, assorted work arrangement and work-life policies, assorted benefits, and various types of bonuses and allowances. Although the use of some of these policies and benefits has not been studied in depth, evidence suggests that at least two classes of these tools have not been widely used.

*Voluntary separations.* One flexibility-related tool available to civil service managers is the voluntary separation incentive or “buyout” program. Buyouts and early retirement incentives helped ease the negative effects on workers whose organizations were required to downsize in the 1990s, especially in the Department of Defense (DoD). They also can help civil service organizations restructure their workforce by inducing the separation of individuals in positions no longer needed and replacing them with workers with different skills or in different pay grades.

Given the large size of the federal workforce, the number of buyouts that agencies are permitted to offer to reshape the skill and experience mix of their workforce is quite limited. For example, in the DoD, managers are allowed to offer only 2,000 buyouts in 2002 and 6,000 in 2003. As of September 2000, there were about 670,000 employees in the DoD.

*Recruitment, relocation, and retention.* In December 1999, an OPM study looked at three tools—namely, the recruitment, relocation, and retention incentives, or what have been dubbed “the 3Rs”—which are intended to create a more flexibly managed civil service (U.S. Office of Personnel Management, 1999b). Although the use of these incentives was 17 times greater in 1998 than it was in 1992, almost no employees received them. The study found that only 0.14 percent of all Executive Branch employees received 3R incentives in 1998. Recruitment bonuses were given to only 0.3 percent of all new hires, relocation bonuses were given to only 1 percent of employees making geographic moves, and retention allowances were given to only 0.09 percent of Executive Branch employees that year.

To put these figures in perspective, a RAND study of military compensation found that about 10 percent of first-

term Army enlisted members and 25 percent of first-term Navy members got a reenlistment bonus in 1999 (Asch, Hosek, and Martin, 2002). A study of military recruiting by Warner, Simon, and Payne (2001) found that 35 percent of high-quality military recruits got an enlistment bonus in 1998. Bonuses are used far more extensively and the budgets to fund these bonuses are much larger for active duty members of the armed forces than they are for civilian workers.

So why don't managers use the flexibility-related pays that are available to them? Little research is available to answer that question, but a few hypotheses have been put forward. The December 1999 OPM report contends that the primary reasons for the limited use of the 3Rs were a lack of funds, limited recruiting because of government downsizing during the period of examination, and relatively little need in some agencies for such incentives. The OPM report also stated that the authority to approve the use of these tools tended to reside at high levels of the hierarchy within different organizations and the burden of justifying such pays seemed to have discouraged some lower-level managers from requesting 3R use.

### **Existing Flexibility-Related Tools Could Have Significant Effects, If Used**

A key question is whether the existing civil service flexibility-related tools are effective, or whether new tools need to be developed (Ta(1990s, mmrfistigeo3o(lated w hTgquends thch,)TjT\*if

early retirement option was estimated to more than double the rates of separation and retirement from the civil service among those who would be eligible for that benefit. The buyout was estimated to increase separations and retirements by about 30 to 40 percent, depending on age. Again, the estimated effects are sizable.

The available evidence also indicates that civil service personnel quit rates have responded strongly to pay changes in the past. A 1990 study (Black, Moffitt, and Warner, 1990) found that a 10 percent change in civil service pay would change civil service quit rates by 9.3 percent among technical workers and by 4.3 percent among administrative workers.

### **By Some Metrics, the Civil Service System Seems to Work**

One way to assess how well an HR system serves to attract and retain high-quality personnel and to meet other strategic HR goals is to examine personnel outcomes. Measured by such outcomes as the recruitment, retention, promotion, and pay of high-quality personnel, the civil service system has had a degree of success. What little evidence is available, primarily relating to DoD employees, suggests that the system has not produced undesirable personnel outcomes, despite its rigidities.

The evidence from DoD's experience is generally positive. A 2001 DoD-sponsored RAND study of the pay, promotion, and retention of GS civil service workers in the DoD found that personnel managers are using the civil service system in such a way as to produce generally desirable outcomes (Asch, 2001). For example, the analysis found that higher-quality personnel, measured by supervisor rating and education level, are generally paid more and promoted faster in the DoD, holding constant employment factors such as occupation, grade, years of service, location, and function, and demographic factors such as gender and age. The study found considerable variation in the pay and promotion patterns of personnel in different occupations in the DoD, suggesting that managers are able to use the common pay table to achieve different pay outcomes in different occupations.

The study also found that higher-quality defense workers, in terms of supervisor performance ratings, also had better retention, holding other factors constant. The one area of concern regarded employees with the most advanced degrees, such as master's or doctorate degrees. They were paid more, all else being equal, including occupation. But, the study also found that those employees tended to be promoted somewhat more slowly than those with only bachelor's degrees and in some cases had poorer retention, holding all else equal, including entry grade and occupation. An important caveat to the study's findings is that it

is unclear if the better retention and pay among higher-quality employees is sufficiently high, given the DoD's requirement for such workers.

A related study (Gibbs, 2001) examined the personnel outcomes of scientists and engineers who work in laboratories in the DoD, a group that has many individuals with advanced degrees. The study found that the financial gains associated with greater skills and responsibility, as measured by the difference in pay across grades, remained about the same from 1982 to 1996. In marked contrast, in the private sector the pay differential for the greater skill and responsibility among engineers rose over that same time period. This difference between the wage structure of federal and private-sector workers was also documented by Katz and Kreuger (1991) using data on all federal workers. Nonetheless, Gibbs found little evidence that the DoD suffered a decline in the quality of the workforce being studied. Furthermore, the quality and performance of new hires to that workforce, relative to earlier groups of new hires, and the quality and performance of employees who were retained, relative to those who had left, remained stable.

Similar results were found in an earlier study of defense workers. A 1990 DoD study of the quality of civilian workers who had quit the DoD found no evidence that higher-quality employees, as measured by their SAT scores, were more likely to leave the DoD than other civilian employees (U.S. Department of Defense, 1990). Earlier studies of all federal workers, not just those in the DoD, also indicate that the system generates some desirable outcomes. A 1980 study of federal pay levels (Borjas, 1980) found substantial wage differentials across agencies in the federal government despite the so-called rigid pay table. A 1995 study comparing federal and private-sector hiring in the 1980s found that the federal government was just as able to attract high-quality entrants as the private sector (Crewson, 1995). Personnel quality was measured in terms of aptitude test scores.

What factors have afforded these favorable civil service personnel outcomes? A list of possible explanations includes the following:

- *Federal pay historically has been on par with private-sector pay.* Official measures of the so-called "pay gap" show that federal pay grew more slowly than private-sector pay from the mid-1970s to the mid-1990s, for similar jobs (Congressional Budget Office, 1997). However, another approach is to compare individuals with similar "human capital" such as age, education, and occupation. Early studies using the human capital approach found that the pay of federal workers actually exceeded that of private-sector workers with similar characteristics, broadly

defined (Smith, 1976; Gyourko and Tracy, 1988; Krueger, 1988). More recent comparisons that use more detailed information about individuals' human capital characteristics find that federal employees are neither overpaid nor underpaid relative to similar private-sector workers (Moulton, 1990; Congressional Budget Office, 1997).

- *High-quality and skilled civil service employees may enter and stay in federal employment because of the nature of their work and the desire to serve the public.* Such attitudes would make their behavior relatively insensitive to financial incentives.
- *Strong incentives to stay in the civil service until retirement eligibility is reached are embedded in both the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS).* Those who leave before they are eligible to retire under either retirement system incur a large financial loss in the value of their expected retirement benefits (Asch and Warner, 1999). The pull of the retirement system is greater for higher-quality workers, if they are paid more and promoted faster over their careers than for lesser-quality workers, because the value of the expected retirement benefit increases with one's pay. Additionally, higher-paid workers covered by FERS are more likely to contribute to its Thrift Savings Plan. Therefore, higher-quality workers may be less likely to leave the civil service than lower-quality workers because they are paid more than lower-quality workers and both FERS and CSRS have a stronger effect for them. This is the argument made by Ippolito (1987).

However, the fact that some outcomes are better among higher-quality employees does not mean that *enough* higher-quality employees are being recruited and retained. Until recently, most federal civil service organizations lacked workforce plans, so they did not have an explicitly stated requirement for high-quality workers. Consequently, there is no benchmark by which to compare whether the supply of high-quality workers meets the requirement. The better retention of high-quality workers found in past research may or may not be sufficient relative to the requirement for such workers.

### **Evidence Is Mixed on the Success of Civil Service Waiver Experiments**

Concerns about the shortcomings in the civil service system are not new. Although the establishment of a DHS has highlighted those concerns, problems with the system have been a topic of discussion among observers, researchers, and policymakers for some time.

In response to these concerns, several federal organizations have been able to waive, either partially or fully, civil

service rules defined by Title 5 of the *U.S. Code*, and have, therefore, had the opportunity to develop their own HR systems. The organizations include the U.S. Postal Service, the Central Intelligence Agency, the Library of Congress, the Federal Reserve Board, the Federal Aviation Administration, and other federal agencies. About half of federal employees are in these exempt organizations (U.S. Office of Personnel Management, 1998a).

If the secretary of the DHS chooses to develop a new personnel system for DHS, evidence on the success of past efforts by other organizations will be important in those deliberations. The little evidence that is available indicates that civil service waivers have had mixed results in terms of producing better personnel outcomes or even substantially better personnel processes.

In a 1998 OPM study of the personnel practices and policies in organizations that are partially or fully exempt from Title 5, the OPM noted the following:

We started the study with the working hypothesis that there would be substantial differences in the HRM [Human Resource Management] systems of non-Title 5 organizations compared with Title 5 agencies. In general, we found that the actual systems differences are important *but more limited than anticipated* [emphasis added] (U.S. Office of Personnel Management, 1998a).

The study found few differences in the recruitment, hiring, and promotion practices of exempt organizations that supposedly had more flexibility than those that were not exempt. A notable exception was the absence of preferential employment and hiring practices for veterans and the so-called "rule of three" in hiring that gives preference to the top three eligible candidates certified by the OPM. Although exempt organizations had the ability to hire people on the spot, even without announcing a vacancy, the study found that such flexibility was limited by concerns about merit, collective bargaining agreements, and other constraints. The study also found that the exempt organizations continued to incorporate the merit system principle or other merit-based organizational values.

The study found differences in the classification and compensation systems used by exempt and non-exempt organizations. Several exempt organizations developed their own classification systems and pay systems that included pay-for-performance, broad-banded pay grades, and other forms of variable pay. Whether these systems produce improved outcomes in terms of worker morale, recruiting and retention of high-quality personnel, and better performance is still an open question. On the other hand, one notable finding was that five of the 37 exempt organizations studied by OPM continued to follow Title 5 for per-



sonnel classification and compensation because it was easier than establishing their own system.

Evaluations of experimental pay systems developed to introduce greater flexibility in personnel management show mixed effects on personnel outcomes. The Gibbs (2001) study of DoD laboratory scientists and engineers found no evidence that these other pay plans provided greater flexibility in personnel management. It measured the same outcomes for employees who were under the traditional civil service GS pay system as for those who participated in two experimental pay systems. The first experimental system was implemented in a demonstration project conducted at the Naval Air Warfare Center in China Lake, California, and the second was the Performance Management Recognition System. This latter plan was used in the late 1980s and early 1990s, covered all GS-13 to GS-15 workers throughout the civil service, and altered how within-grade pay increases were determined.

In contrast, evidence provided by the OPM suggests that waiving Title 5 requirements has resulted in improved personnel outcomes in some of the demonstration projects, including those that cover scientists and engineers in the DoD. For example, OPM found that starting pay was higher, pay raises were larger for more highly rated employees, and turnover of workers with better ratings was lower for federal employees at China Lake relative to a control laboratory that was not a demonstration project (U.S. Office of Personnel Management, 1988, 1991). Similar results have been found for the National Institute of Standards demonstration project (Rosenthal et al., 1991).

### **The Military Provides a Good Example of What Can Be Done and How to Get There**

The military is an example of a federal organization that has been able to develop a successful HR system. Like the proposed DHS, the military is a large governmental organization employing individuals with diverse skills in multiple locations and seeks to accomplish diverse objectives. The military system is by and large successful (although not perfect) for a number of reasons. It is transparent and fairly applied, it allows for flexibility without undue instability, it demands accountability, it provides performance incentives, it devotes resources to adequately fund its policies, and it performs regular analyses to assess the effects of those policies (Asch and Warner, 1994). The DHS should consider the DoD experience in establishing a process for developing and improving its HR system, whether or not it retains the civil service structure.

When the all-volunteer military force was created in the early 1970s, the DoD was faced with a monumental challenge, which was similar in some respects to that faced by the DHS today. Both involve abrupt, large-scale change in

the way personnel are managed. To ensure the success of the all-volunteer force, President Nixon established the President's Commission on an All-Volunteer Force, commonly known as the Gates Commission, to study the issue. The Gates Commission report paved the way for the abolition of the draft in 1973. The military compensation system has been studied since then by other commissions including the Defense Manpower Commission in 1976 and the President's Commission on Military Compensation in 1978. In addition, the military studies its personnel management policies and compensation on an ongoing basis, including a Quadrennial Review of Military Compensation. The DoD devotes significant resources and data-gathering effort to analyze and evaluate its personnel policies. These assessments generally focus on recruiting and retention. As a result, tools and policies have been successfully developed, tested, fine-tuned, and implemented.

Like the civil service, the military has one-size-fits-all pay tables, which have been in place since the 1940s. Yet, virtually all observers would agree that the military's compensation system has proven over time to be remarkably successful in attracting and retaining high-quality soldiers, sailors, airmen, and marines to the armed services. This fact is even more remarkable when one considers the dramatic changes that have occurred in the military and the environment in which the military has operated since the end of World War II.

Considerable flexibility is provided through the wide variety of special and incentive pays embedded in the military's compensation system. These policies enable the services to respond to changes in the external environment and internal requirements, to the unusual and hazardous duties performed by members of the armed forces, and to the hazardous locations in which they serve (Asch, Hosek, and Martin, 2002). The military also devotes significant resources to fund these special pays and incentives, although the payment amounts are dwarfed by the cost of basic pay and the retirement accrual charge. Personnel managers have the incentive and authority to use and target flexibility-related management tools to achieve recruiting and retention goals. As a consequence, the military uses these flexibility-related policies far more extensively than the civil service does.

In addition, the military compensation system incorporates predictability because of its adherence to uniform pay tables and its systems of allowances and special and incentive pays. Although military bonuses and other special and incentive pays account for most of the variation in military pay among service members, on average these pays represent only 10 to 15 percent of the total cash compensation. Thus, a relatively small portion of total average cash compensation for active duty members is subject to



uncertainty. Furthermore, some of the variation in military pay that is due to bonuses and special and incentive pays is predictable because the circumstances that give rise to those payments, such as sea duty, are themselves largely predictable.

The military's HR system embeds important performance incentives for military personnel, including personnel managers. The incentives not only induce effort but also induce high-quality performers to enter the military, to stay in it, and to seek advancement to higher-ranked positions. The incentives are inherent in the military's promotion system (Buddin et al., 1992). The military personnel system also encompasses incentives for those in supervisory positions to identify and, in some cases, separate poor performers. Because poor performance can result in death or injury to members of the military, and unit commanders are often held accountable for sub-par unit performance, a clear incentive exists to cull those who do not make the grade.

This discussion is not intended to suggest that the civil service should adopt the military's HR systems. Civilian service differs in critical ways from military service. Nonetheless, the military system provides a useful case study of how to develop an effective system.

## PERSONNEL CHALLENGES FACING THE DHS

A major shift is occurring in the demographics of the civil service. According to Congressional Budget Office (2001) statistics, about half of the federal workforce was over age 40 in 1985. That figure grew to about 75 percent in 2000. In part, the aging of the federal workforce reflects the aging of the "baby-boom" generation in the U.S. population overall. These trends will no doubt affect personnel staffing in the proposed DHS as well.

As a result of these demographic changes, the civil service, including the DHS, will be at risk of losing a large part of its workforce over the next decade. According to the President's Management Agenda (U.S. Office of the President, 2001), 71 percent of the government's current workforce will be eligible for either regular or early retirement by 2010 and 40 percent of those workers are expected to retire. Because of these trends, the General Accounting Office designated "human capital" as a government-wide high-risk area (General Accounting Office, 2001a).

There are reasons to believe that the civil service system and the DHS specifically will be highly stressed in the future from a personnel standpoint. Consider the following:

- *The DHS will require an extensive hiring campaign to obtain personnel with new skills and to replace those who*

*have retired.* That is, because so many employees will be leaving, the demand for new workers by the federal government, including the DHS, will grow, even if the overall staffing requirements remain the same. There is reason to expect that many of the hires will need to be well-educated. While outsourcing may be able to fill some of these requirements, additional in-house federal employees will be needed to supervise outsourced activities and to conduct other inherent governmental functions that cannot be outsourced.

- *This hiring will take place in a highly competitive environment, if the trends of the past 20 years continue.* The federal government will be competing against both the private sector and state and local governments for workers. The competition for new workers is likely to be particularly fierce because the entire U.S. population is aging. If the civil service (including the DHS) wants to replace retiring workers with junior or mid-career workers with at least some college, as will likely be the case, it may need to alter its compensation, hiring, and career management practices to ensure that it can compete effectively for college-educated individuals in the labor market in the future. For example, pay must remain competitive with the dramatically rising pay for those with post-secondary education relative to those with no post-secondary education (Mishel, Bernstein, and Schmitt, 1999).
- *Mergers such as the one necessary to create the DHS are notoriously painful.* The department will require the merging of organizations currently in various parts of the federal government. These "sending" organizations have pay and personnel practices and "corporate cultures" that differ from one another and from whatever is adopted in the DHS. Some personnel will come from organizations that were fully or partially exempt from the Title 5 rules. Consequently, individuals performing similar tasks in the new department may have quite different pay depending on whether their originating organization was exempt from Title 5. The DHS secretary must be sensitive to such integration issues.

## TOWARD SUCCESSFUL PERSONNEL MANAGEMENT

**Make greater use of existing policies that provide personnel management flexibility.** Given the large number of retirements that are imminent in the organizations that will constitute the DHS, and the dual challenges of integrating workforces that previously worked in other federal organizations under various personnel management schemes and of shaping their skill and experience mix to best meet the new department's mission, the DHS secretary should be given the authority and resources to use flexibility-related policies extensively. For these policies

to have their maximum effect, the barriers to their use—such as inadequate funding and overly cumbersome administrative procedures—must be addressed.

Although essential, expanded use of flexibility-related policies alone is unlikely to lead to a system that has all the characteristics that define success, especially given the stresses looming on the horizon. These policies will not address such possible problems as either excessive or insufficient oversight, hiring inadequacies, and poorly conceived management and employee performance incentives. Additional steps will be needed.

**Seek objective expertise, take time to develop a plan, and invest continually to improve the system.** In part what is needed is strong leadership by the secretary and a willingness to identify and reform inappropriate processes. However, what is also needed is the development of a well-defined and well-conceived plan for ensuring effective personnel management. If it is decided that an entirely new HR system must be developed, the plan should specify such details as how many job series and pay tables to establish. It should also specify the tools to be used to attract, retain, and relocate personnel, to motivate and reward good performance, and to separate poor performers from the workforce. On the other hand, if the civil service system is mostly retained, the plan should provide details on how to address those areas where it falls short.

Development of such a plan is no small task and will involve considerable effort. Although the challenges are different from those posed by the establishment of the all-volunteer force, they are no less profound. Thus, policymakers would be wise to follow a similar path. That is, the DHS should seek expert input from individuals who are familiar with the federal civil service system but are not closely tied to that system currently, and who are familiar with the characteristics of an effective HR system and how those characteristics apply in the context of a governmental organization.

Finally, policymakers must be prepared to invest in monitoring and analytical activities to ensure that the system is meeting all of its objectives and to aggressively address any shortcomings that are identified.

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